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SUBJECT: ECONOMIC SITREP NO.27, WEDNESDAY, DECEMBER 8

REF: ROME 19944

1. SUMMARY. PRESS HEADLINES ON ANDREOTTI US TRIP GENERALLY IMPLY HE RECEIVED NECESSARY GUARANTEES OF FINANCIAL SUPPORT, WITHOUT ACTUALLY RECEIVING SPECIFIC ASSISTANCE. MAJOR INTERNAL BATTLE HAS ERUPTED WITHIN UNION TOP THREE CONFEDERATIONS OVER POSSIBILITY OF PERMITTING ADJUSTMENTS TO WAGE COST-OF-LIVING ESCALATOR SYSTEM. MINFIN PANDOLFI OUTLINES NEW MEASURES WHICH WILL IMPROVE TAX COLLECTION IN 1977. FIAT-LIBYA DEAL MUST WIN APPROVAL OF ABSOLUTE MAJORITY OF STOCK-HOLDERS, WHILE BANK OF ITALY WILL NOT ACCEPT EXCHANGE RISK ON DOLLAR LOAN. MINFOR-TRADE OSSOLA IN IRAN TO BOLSTER TRADE OPPORTUNITIES. END SUMMARY.

2. ANDREOTTI TRIP TO US. HEADLINES OF MAJOR DAILIES RANGE FROM LA STAMPA'S "ANDREOTTI IN USA: I RETURN WITH ASSURED GUARANTEES," CORRIERE DELLA SERA'S "WASHINGTON WILL SUPPORT THE LIRA AGAINST ANY SPECULATIVE MANEUVERS," IL GIORNALE'S "GUARANTEES FOR THE LIRA AND CONFIDENCE ARE ASKED BY ANDREOTTI IN AMERICA, AND 24 ORE'S "'UNDERSTANDING' BY USA BUT FEW LIMITED OFFICIAL USE

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COMMITMENTS." MOST PAPERS COMMENT THAT ANDREOTTI NOW HAS THE

ASSURANCE OF HAVING HIS FLANKS COVERED FROM THE MONETARY POINT OF VIEW AGAINST ANY SPECULATIVE ATTACK ON LIRA. PRESS REPORTS INTERPRET SECRETARY KISSINGER STATEMENT ("WE ARE READY TO DISCUSS WITH SYMPATHY ITALIAN REQUESTS FOR FINANCIAL ASSISTANCE.") TO MEAN SHORT-TERM ASSISTANCE EITHER THROUGH FEDERAL RESERVE SWAP OF CREDIT OR TREASURY'S EXCHANGE STABILIZATION FUND. IN TALKS WITH INTERNATIONAL MONETARY FUND MANAGING DIRECTOR WITTEWEN, APPROVAL OF ACTIONS TAKEN BY ITALIANS THUS FAR WAS EXPRESSED BUT IT WAS POINTED OUT THAT FURTHER POINTS ARE STILL BE RESOLVED, INCLUDING MEASURES TO REDUCE THE COST OF LABOR AND INCREASE PRODUCTIVITY INCLUDING ATTENUATION OF SOME OF THE EFFECTS OF THE WAGE COST-OF-LIVING ESCALATOR. DISCUSSION WITH EXIMBANK PRESIDENT OF ITALY'S \$17 BILLION NUCLEAR ENERGY PROGRAM ALSO REPORTED, OF WHICH "AMERICANS AND THE EXIM ARE EXPECTED TO FINANCE 20 PERCENT." SOME REPORTS TOOK PAINS TO POINT OUT THAT ANDREOTTI WILL NOT RETURN, AS SOME HAVE UNREALISTICALLY ASSUMED, WITH DOLLARS IN HIS POCKET.

3. UNION FERMENT OVER QUESTION OF COST-OF-LIVING ESCALATOR ADJUSTMENTS. SECRETARY GENERAL LAMA OF COMMUNIST-DOMINATED UNION CONFEDERATION CGIL IS CAUSING UPHEAVAL IN TOP RANKS OF MAJOR CONFEDERATIONS WITH INSISTENCE THAT SECRETARIAT REPORT OF UNION CONFEDERATIONS (CCU) TO EXECUTIVE COMMITTEE MEETING SCHEDULED FOR DECEMBER 9-10 INCLUDE RECOMMENDATION FOR SOME FORM OF ADJUSTMENT TO THE WAGE COST-OF-LIVING ESCALATOR. SECRETARY GENERAL OF UIL BENVENUTO, WHO HAS ASSUMED LEADERSHIP OF "UNTOUCHABLE" CRUSADE, IS VIOLENTLY OPPOSED TO SUCH INCLUSION. BENVENUTO LOST CAMPAIGN TO FORCE ASSEMBLY MEETING TO BE OPEN TO PRESS AFTER DECISION MADE TO HOLD CLOSED MEETINGS, BUT ISSUE OF REPORT TO EXECUTIVE COMMITTEE NOT YET RESOLVED. PRESS HAS REPORTED THAT ON ROUND OF POLITICAL CONSULTATIONS, LABOR CONFEDERATIONS WERE TOLD BY EACH POLITICAL PARTY THAT SOME ADJUSTMENT TO THE WAGE COST-OF-LIVING ESCALATOR SHOULD BE ACCEPTED. PRESS ALSO ALLEGES THAT LAMA RECEIVED MARCHING ORDERS FROM PCI TO AGREE TO SOME ADJUSTMENT IN ESCALATOR. LAMA ALLEGEDLY PROPOSES TWO ALTERNATIVE ADJUSTMENTS TO THE ESCALATOR, ONE OF WHICH LAMA INSISTS MUST BE ACCEPTED BY CONFEDERATIONS: THESE ARE, A) RESCHEDULE ADJUSTMENTS TO BIENNIAL RATHER THAN PRESENT QUARTERLY PAYMENTS, OR B) EXCLUDE MATURED ESCALATOR POINTS FROM COMPUTATION OF SEVERANCE PAY. LIMITED OFFICIAL USE

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THE FIRST MEASURE WOULD HELP REDUCE THE RATE OF INFLATION, BUT THE LATTER, WHILE REDUCING THE COST OF LABOR, WOULD NOT.

4. MINFIN PANDOLFI OUTLINES IMPROVED TAX COLLECTION MEASURES. IN AN INTERVIEW WITH MILAN DAILY IL GIORNALE NUOVO, MINISTER OF FINANCE PANDOLFI BASED HIS OPTIMISM THAT 1977 TAX COLLECTIONS WILL BE MUCH HIGHER THAN FORECAST ON NEW COLLECTION METHODS WHICH HAVE BEEN INTRODUCED RECENTLY. FIRST HE POINTED

OUT THAT THERE WILL, IN FACT, BE FOUR COLLECTIONS IN 1977 FOR SELF-EMPLOYED TAXPAYERS: A) PAYMENT OF 1975 TAXES OF THOSE WHO DID NOT OPT FOR THE SELF-ASSESSMENT (AND CONCOMITANT PAYMENT) IN MAY OF 1976; B) PAYMENT OF TAXES IN ARREARS FOR PREVIOUS YEARS; C) SELF-ASSESSMENT AND PAYMENT FOR 1976 TAXES AND D) SELF-ASSESSMENT AND ADVANCE PAYMENT OF THREE-FOURTHS OF TAX DUE FOR 1977. BESIDES THIS HEAVY BURDEN ON THE TAXPAYER, REVENUES ARE EXPECTED TO INCREASE RESULTING FROM A) FISCAL DRAG; B) NEW MEASURES AGAINST TAX EVADERS WHICH WILL COME INTO EFFECT IN 1977; C) GREATER TAX OFFICE EFFICIENCY RESULTING FROM THEIR BEING RELIEVED OF SOME SECONDARY DUTIES IN ORDER TO INCREASE TIME SPENT ON PRIMARY FUNCTION OF TAX COLLECTION; D) PROVISION THAT VALUE-ADDED TAX CAN BE PAID THROUGH BANKS THUS INCREASING TAX COLLECTIONS POINTS; E) FORMATION OF A SPECIAL INVESTIGATIVE NUCLEUS WITHIN THE FINANCE POLICE TO CONTROL TAX EVASION, AND FINALLY, INSTITUTION OF A TRIAL SYSTEM OF SPOT AUDITS WHICH WILL HOPEFULLY RESULT IN MORE HONEST RETURNS BEING FILED. PANDOLFI ALSO ADDED THAT THERE ARE POSITIVE SIGNS THAT ITALIANS RECOGNIZE THE SERIOUSNESS OF THE SITUATION AND ARE RESPONDING POSITIVELY, NOTING THAT 5 MILLION TAXPAYERS PARTICIPATED IN THE NEW SELF-ASSESSMENT SYSTEM THIS YEAR. HE ALSO HOPED THAT THE INEFFICIENT AND LOW PRODUCING ILOR (LOCAL TAX ON INCOME) AND INVIM (CAPITAL GAINS TAX ON PROPERTY SALES) WOULD BE ABOLISHED WITHIN THE CONTEXT OF REFORM OF LOCAL GOVERNMENT FINANCING.

5. FIAT-LIBYA DEAL TO BE VOTED BY STOCKHOLDERS. AS PRESS CONTINUES WIDE COVERAGE OF RECENTLY ANNOUNCED FIAT-LIBYA DEAL TO INCREASE FIAT CAPITAL AND PROVIDE ABOUT \$415 MILLION IN NEW FINANCING, ATTENTION HAS BECOME RIVETED TO FACT THAT A NEW STOCK ISSUE RESERVED TO ONE BUYER MUST BE APPROVED BY AN ABSOLUTE MAJORITY OF OUTSTANDING STOCK. SINCE AGNELLI FAMILY PRESENTLY CONTROLS ONLY 33 PERCENT OF OUTSTANDING STOCK, FIAT LIMITED OFFICIAL USE

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PRESIDENT IS ALLEGEDLY MAKING THE ROUNDS OF BANKS--WHO WOULD BE MAJOR HOLDERS OF BLOCK STOCK, TO OBTAIN SUPPORT OR PROXY FOR SPECIAL STOCKHOLDERS MEETING TO BE HELD ALLEGEDLY IN JANUARY. WITH REGARD TO THE \$104 MILLION LOAN, BANK OF ITALY HAS DETERMINED THAT IT WILL NOT ASSUME EXCHANGE RISK FOR REPAYMENT ONCE LOAN IS CONVERTED INTO LIRE AS ALLEGEDLY REQUESTED BY AGNELLI. APPARENTLY AGNELLI HAD STATED THAT IF BOI WOULD NOT ASSUME EXCHANGE RISK, LOAN WOULD NOT BE CONVERTED TO LIRE BUT USED BY HOLDING COMPANIES OUTSIDE OF ITALY.

6. MINFORTRADE OSSOLA PROMOTES EXPORTS TO IRAN. OSSOLA, WHO PRESENTLY IN IRAN, HAS REPORTEDLY CONCLUDED A \$2 BILLION TRADE DEAL WITH THE SHAH. PRESS REPORTS THAT A TRADE DOCUMENT WAS SIGNED BY THE TWO COUNTRIES, AND ONE REPORT ALLEGES THAT A FIXED PERCENTAGE RELATIONSHIP BETWEEN INCREASES IN PETROLEUM

IMPORTS BY ITALY AND INCREASE IN IMPORTS FROM ITALY BY IRAN
WAS ALSO AGREED UPON.

7. MARKET DEVELOPMENTS. ITALIAN EXCHANGE AND BOND MARKETS
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